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C O N F I D E N T I A L DUSHANBE 000044

SIPDIS

EMBASSY MANILA: PLEASE PASS TO ADB AMBASSADOR SPELTZ

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SUBJECT: TAJIK ENERGY MINISTRY RELUCTANT TO WORK WITH MEHRON OIL

CLASSIFIED BY: Thomas Armbruster, Charge d Affaires, US Embassy
Dushanbe, State.

REASON: 1.4 (d)

11. (C) SUMMARY: Deputy Energy Minister Emomiddin Aslov reported the Tajik government would only allow a \$20 million oil refinery project if the investors assume 100 percent of the risk and make no claims on the Tajik Government, should the project fail. The actions and background of Mehron Oil LLC and its founder, Michael Jay, created enough doubts that the Tajik Government suspects fraud. Unwilling to pull the plug entirely, Aslov said Sofitel Capital Corporation was welcome to invest, provided they understood the risks involved with working with Mehron and did not hold the Tajik government responsible. END SUMMARY

12. (C) Aslov sent the Embassy a letter December 27, 2005, outlining his concerns about the refinery project. In an hour-long meeting with PolOff January 5, Aslov said Jay had been in negotiations with the Tajiks for almost two years, but always failed to secure financing. According to Aslov, Energy Minister Nurmamatov himself had asked Jay "10 times" when Mehron Oil would find the financing. "We have serious doubts," he underscored.

13. (C) Sofitel Capital Corporation USA, Inc, based in Annapolis, has emerged as a potential backer for Mehron Oil's refinery project. As part of its loan commitment, Sofitel requires Mehron Oil to provide a guaranty of the loan from the Republic of Tajikistan (or any sub-sovereign entity) to be further guaranteed by the Multi-Lateral Investment Guaranty Agency. (NOTE: Ron Flax-Davidson of Sofitel Capital Corporation plans to visit Tajikistan January 21-25 to visit the proposed refinery sites and has asked for Embassy assistance in facilitating the necessary guarantees for the project. END NOTE) While Aslov did not explicitly refuse to issue a guaranty, he made it clear that the Government of Tajikistan would not ensure Mehron Oil's activities.

14. (C) Jay's credentials are unclear. He holds an Australian passport, but Aslov said Jay was born and raised in Russia and may have attended university there. Mehron Oil is a joint stock company owned 94 percent by BA Oil Pty Ltd and six percent by the Republic of Tajikistan. Jay owns 100 percent of Wombat's Machinery Pty Ltd, which formed BA Oil as a joint venture with the Kyrgyz Republic. When the Tajiks inquired in Kyrgyzstan about Jay's activities there, Kyrgyz authorities said Jay had no business in the Kyrgyz Republic, but was involved in several projects in Tajikistan. According to Aslov, Jay had not responded to Tajik requests to provide pictures or evidence of his successful joint ventures or refinery projects.

15. (C) Aslov emphasized that Tajikistan welcomed foreign investment and very much wanted the refinery project. "We have a site, we have transportation linkages, now we just need a state-of-the-art refinery. In three years we could be processing oil here!" Aslov said Energy Minister Nurmamatov was frustrated by Jay's empty promises and deeply concerned about the ramifications of a failed joint venture. "Tajikistan is not a joke," said Aslov. "We need real investment and cooperation."

NO ONE WANTS ANOTHER CASE LIKE GERALD METALS, DO THEY?

16. (C) COMMENT: Although this is only one side of the story, the Tajiks have never previously discouraged a \$20 million foreign investment. Given the Tajik government's reluctance to support Mehron Oil's involvement in the project, Post may find it extremely difficult to help Sofitel Capital secure the guarantees required. Post will need to do more digging to get the full picture on Mehron's capability and reliability, but we should consider this a serious red flag. Gerald Metal's difficult history with Tajik Government guarantees also should persuade all parties to proceed very cautiously. END COMMENT

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